

**HUMBOLDT
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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HUMBOLDT COMMUNITY SCHOOL DISTRICT

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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BOARD OF EDUCATION

(Before September, 2003 Election)

Mike Sexe	President	2004
Sharon Dailey	Vice President	2003
James Gorman		2003
Daryl Short		2005
Elaine Curran		2005

(After September, 2003 Election)

Mike Sexe	President	2004
Sharon Dailey	Vice President	2006
Daryl Short		2005
Elaine Curran		2005
Wayne Miner		2006

SCHOOL OFFICIALS

Dr. Joyce Judas	Superintendent
C.F. Campidilli	District Secretary
Cheryl Dodd	District Treasurer

Independent Auditor's Report

To the Board of Education of the
Humboldt Community School District:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Humboldt Community School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Humboldt Community School District as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 12 to the general purpose financial statements, during the year ended June 30, 2004, Humboldt Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments; Statement No. 37 Basic Financial Statements and Management's Discussion and Analysis; Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated November 30, 2004 on our consideration of Humboldt Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 10 and 31 through 33 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Humboldt Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the general purpose financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 6, required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

BRUCE D. FRINK
Certified Public Accountant

November 30, 2004

HUMBOLDT COMMUNITY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Humboldt Community School District's Comprehensive Annual Financial Report presents its "discussion and analysis" of the District's financial performance during the fiscal year ending June 30, 2004. Please read it in conjunction with the District's financial statements.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- The District's General Fund balance increased by over \$490,000. This is the second consecutive year that the balance has increased. The District had revenues of \$9,478,349 and \$8,984,218 was spent during the year.
- The District experienced a slight increase in BEDS enrollment. The September 2003 enrollment was 1361.7, while the September 2002 enrollment was 1360.0. This is indicative of the actual number of students attending District schools including open enrollment in students.
- Revenues decreased over \$130,000 (1.43%) from the prior year. This was due primarily to a combination of decreased state foundation aid and decreased federal grant activity. Expenditures decreased just under \$300,000 (3.20%) primarily due to decreased payroll costs and tighter controls over discretionary spending.
- The District has decreased its discretionary spending in an effort to improve the financial condition of the District's General Fund.
- The District has actively pursued grants from various sources in order to enhance the District's course offerings.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the general purpose financial statements, and required supplemental information.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Humboldt Community School District

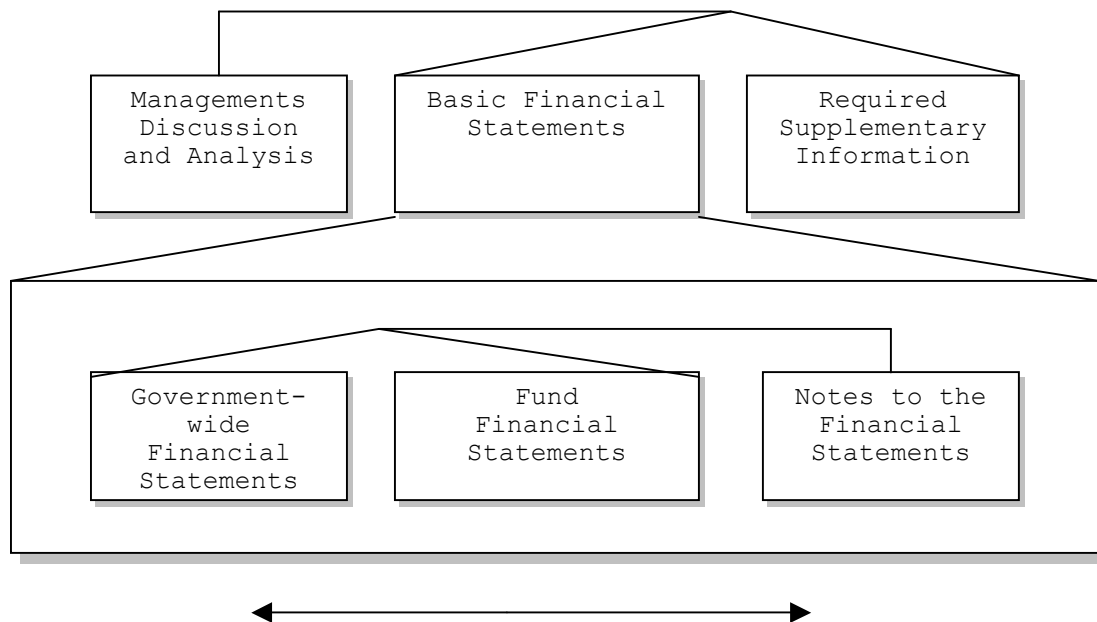


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	Government-Wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows	. Statement of fiduciary net assets . Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

COMBINED BALANCE SHEET

The combined balance sheet shows the total assets, liabilities, and fund equity for all of the funds for the entire district for the 2004 fiscal year. The combined balance sheet shows three major fund types as well as the account groups: general fixed assets and the general long-term debt.

The government funds include: the general fund, special revenue, debt service, and capital projects. Most of the District's basic services are included here, such as regular education, special education, building and grounds maintenance, transportation, administration, and capital projects. Property taxes and state aid finance most of these activities.

The District's only enterprise fund is the school nutrition fund.

The fiduciary funds include: trusts and agencies. The District is the trustee or fiduciary for assets that belong to others, such as scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from other types of funds because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to 2003.

Figure A-3
Condensed Statement of Net Assets
(expressed in thousands)

	Governmental		Business-type		Total		Percentage
	Activities		Activities		School District		Change
	2004	2003	2004	2003	2004	2003	2003-04
	\$	\$	\$	\$	\$	\$	
Current assets	7,114	7,440	37	50	7,151	7,490	-4.53%
Capital assets	1,955	2,025	48	55	2,003	2,080	-3.70%
Total assets	<u>9,069</u>	<u>9,465</u>	<u>85</u>	<u>105</u>	<u>9,154</u>	<u>9,570</u>	<u>-4.35%</u>
Current liabilities	4,648	5,498	-	1	4,648	5,499	-15.48%
Non-current liabilities	1,116	1,596	-	-	1,116	1,596	-30.08%
Total liabilities	<u>5,764</u>	<u>7,094</u>	<u>-</u>	<u>1</u>	<u>5,764</u>	<u>7,095</u>	<u>-18.76%</u>
Net Assets							
Invested in capital assets, net of related debt	594	429	48	55	642	484	32.64%
Restricted	837	722	-	-	837	722	15.93%
Unrestricted	1,874	1,220	37	49	1,911	1,269	50.59%
Total net assets	<u>3,305</u>	<u>2,371</u>	<u>85</u>	<u>104</u>	<u>3,390</u>	<u>2,475</u>	<u>36.97%</u>

The District's combined net assets were greater at June 30, 2004 than June 30, 2003. The increase occurred primarily as a result of decreased spending in all areas.

Changes in net assets - Figure A-4 shows the changes in net assets for the year ended June 30, 2004.

Figure A-4
Change in Net Assets
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	733	230	963
Operating grants, contributions and restricted interest	1,224	150	1,374
General revenues:			
Property tax	4,468	-	4,468
Unrestricted state grants	4,000	-	4,000
Unrestricted investment earnings	7	-	7
Other	180	-	180
Total revenues	<u>10,612</u>	<u>380</u>	<u>10,992</u>
Program expenses:			
Governmental activities:			
Instruction	6,261	-	6,261
Support Services	2,841	-	2,841
Non-instructional programs	-	399	399
Other expenses	572	-	572
Total expenses	<u>9,674</u>	<u>399</u>	<u>10,073</u>
Change in net assets	<u>938</u>	<u>(19)</u>	<u>919</u>

Property tax and unrestricted state grants account for 77% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 90% of the total expenses.

Governmental Activities

Revenues for governmental activities were \$10,612,555 and expenses were \$9,674,371. The District reduced discretionary spending and payroll in an effort to keep expenditures as close as possible to revenues. Revenues for governmental activities were \$938,184 more than the expenditures for governmental activities.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5		
Total and Net Cost of Governmental Activities		
(expressed in thousands)		
	Total Cost of Services	Net Cost of Services
	\$	\$
Instruction	6,261	4,715
Support Services	2,841	2,808
Other expenditures	<u>572</u>	<u>194</u>
Totals	<u>9,674</u>	<u>7,717</u>

- The cost financed by users of the District's programs was \$732,569.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$896,782.
- The net cost of governmental activities was financed with \$4,467,807 in property tax, \$4,000,405 in state foundation aid, and \$7,480 in interest income.

Proprietary-Type Activities

Revenues for the District's School Nutrition Fund were \$380,052 and expenses were \$399,194. The revenues include: charges for services, contributions, and federal and state reimbursements.

The Trust Funds are funds given and designated by outside groups and people basically to be given as scholarships. These funds are not to be used to support the operations of the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The Humboldt Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District is reflected in its governmental funds. As the District completed the fiscal year, its governmental funds reported a combined fund balance of \$3,304,912, which is more than last year's ending fund balance of \$2,366,728.

- The District has been trying to control its General Fund balance by holding the line on payroll and discretionary spending obtaining outside grants.
- Increased open enrollment as well as into the District will helped maintain instructional programs with increased funding.
- The elimination of Phase III dollars from the state and the total elimination of technology funding from the state has made it difficult to maintain staff development for teachers and keep all of the school's computers in operational order. The State also instituted a mid-year budget cut that was absorbed by existing balances.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Education annually adopts a budget after the required public notice and hearing. The budget for the current fiscal year is usually amended each April for revenues and expenditures that could not be anticipated the prior April. The budget amending process follows similar statutory procedures.

It is the District's practice, as is in most Iowa school districts, to budget expenditures at or about the maximum authorized spending. As a result, the District's certified budget should always exceed the actual expenditures for the year. Expenditures did not exceed the amounts budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2004, the District has invested more than \$7,000,000 in a broad range of capital assets including school buildings, athletic facilities, kitchens, computers and audio-visual equipment, administration building, transportation/storage facility, maintenance equipment, school buses, and other vehicles, library holdings and textbooks. Total depreciation expense for the year exceeded \$180,000.

Long-term Debt

The District makes principal and interest payments yearly on general obligation bonds and capital loan notes using property tax dollars obtained through voted levies.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The state has now completely abandoned Phase III funding to schools for teacher staff development and curriculum work.
- Iowa's public schools were notified in October 2003 that the state would make an immediate 2.5% across-the-board reduction in funding for the 2004 fiscal year.
- Unfunded mandates such as "No Child Left Behind," and "GASB34" are making it very difficult for schools to keep adequate staffing and provide the necessary instructional materials.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Joyce Judas, Superintendent, Humboldt Community Schools, 1408 9th Ave N, Humboldt, Iowa 50548.

Basic Financial Statements

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
Assets			
Cash and pooled investments	2,595,901	14,192	2,610,093
Receivables:			
Property tax:			
Current year	51,931	-	51,931
Succeeding year	4,361,107	-	4,361,107
Due from other governments	16,596	12,587	29,183
Other receivables	88,161	-	88,161
Inventories	-	10,978	10,978
Capital assets, net of accumulated depreciation (note 6)	1,955,302	47,638	2,002,940
Total assets	<u>9,068,998</u>	<u>85,395</u>	<u>9,154,393</u>
Liabilities			
Accounts payable	38,272	-	38,272
Accrued interest payable	3,617	-	3,617
Deferred revenue:			
Succeeding year property tax	4,361,107	-	4,361,107
Long term liabilities:			
Portion due within one year:			
Capital loan notes	100,000	-	100,000
Energy loan payable	5,000	-	5,000
General obligation bonds payable	140,000	-	140,000
Portion due after one year:			
Capital loan notes	330,000	-	330,000
Energy loan payable	11,090	-	11,090
General obligation bonds payable	775,000	-	775,000
Total liabilities	<u>5,764,086</u>	<u>-</u>	<u>5,764,086</u>
Net assets			
Invested in capital assets, net of related debt	594,212	47,638	641,850
Restricted for:			
Debt service	20,871	-	20,871
Capital Projects	186,442	-	186,442
Management Fund	518,220	-	518,220
Physical Plant and Equipment Levy Fund	111,822	-	111,822
Unrestricted, designated for special purposes	400,000	-	400,000
Unrestricted	1,473,345	37,757	2,727,586
Total net assets	<u>3,304,912</u>	<u>85,395</u>	<u>3,390,307</u>

See notes to financial statements.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	3,925,408	479,428	457,240	(2,988,740)	-	(2,988,740)
Special instruction	1,521,515	250,204	108,415	(1,162,896)	-	(1,162,896)
Other instruction	814,109	-	250,443	(563,666)	-	(563,666)
	<u>6,261,032</u>	<u>729,632</u>	<u>816,098</u>	<u>(4,715,302)</u>	<u>-</u>	<u>(4,715,302)</u>
Support services:						
Student services	410,645	-	794	(409,851)	-	(409,851)
Instructional staff services	326,450	-	-	(326,450)	-	(326,450)
Administration services	1,001,485	-	-	(1,001,485)	-	(1,001,485)
Operation and maintenance of plant services	720,379	-	-	(720,379)	-	(720,379)
Transportation services	382,074	2,937	29,274	(349,863)	-	(349,863)
	<u>2,841,033</u>	<u>2,937</u>	<u>30,068</u>	<u>(2,808,028)</u>	<u>-</u>	<u>(2,808,028)</u>
Other expenditures:						
Long-term debt service	49,636	-	-	(49,636)	-	(49,636)
Facilities acquisition and construction	58,683	-	-	(58,683)	-	(58,683)
AEA flowthrough	378,152	-	378,152	-	-	-
Depreciation (unallocated)*	85,835	-	-	(85,835)	-	(85,835)
	<u>572,306</u>	<u>-</u>	<u>378,152</u>	<u>(194,154)</u>	<u>-</u>	<u>(194,154)</u>
Total governmental activities	9,674,371	732,569	1,224,318	(7,717,484)	-	(7,717,484)

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues					
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$	\$	\$	\$
Business-Type activities:						
Non-instructional programs:						
Nutrition services	399,194	229,957	150,095	-	(19,142)	(19,142)
Total	10,073,565	962,526	1,374,413	(7,717,484)	(19,142)	(7,736,626)
General revenues:						
Property tax levied for:						
General purposes				3,724,576	-	3,724,576
Management fund				232,520	-	232,520
Capital outlay				330,227	-	330,227
Debt service				180,484	-	180,484
Local option sales tax				106,717	-	106,717
Unrestricted state grants				4,000,405	-	4,000,405
Unrestricted investment earnings				7,480	-	7,480
Other				73,259	-	73,259
Total general revenue				8,655,668	-	8,655,668
Change in net assets				938,184	(19,142)	919,042
Net assets beginning of year, as restated (note 12)				2,366,728	104,537	2,471,265
Net assets end of year				3,304,912	85,395	3,390,307

* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Balance Sheet

Governmental Funds

June 30, 2004

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	1,688,788	22,718	173,052	711,343	2,595,901
Receivables:					
Property tax:					
Current year	43,255	2,070	-	6,606	51,931
Succeeding year	3,574,293	162,575	-	624,239	4,361,107
Due from other governments	3,206	-	13,390	-	16,596
Other receivables	88,161	-	-	-	88,161
Total assets	<u>5,397,703</u>	<u>187,363</u>	<u>186,442</u>	<u>1,342,188</u>	<u>7,113,696</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	37,972	300	-	-	38,272
Deferred revenue:					
Succeeding year property tax	3,574,293	162,575	-	624,239	4,361,107
Total liabilities	<u>3,612,265</u>	<u>162,875</u>	<u>-</u>	<u>624,239</u>	<u>4,399,379</u>
Fund balances:					
Reserved for debt service	-	24,488	-	-	24,488
Unreserved, designated for cash flow	400,000	-	-	-	400,000
Unreserved, undesignated	1,385,438	-	186,442	717,949	2,289,829
Total fund equity and other credits	<u>1,785,438</u>	<u>24,488</u>	<u>186,442</u>	<u>717,949</u>	<u>2,714,317</u>
Total liabilities and fund balances	<u>5,397,703</u>	<u>187,363</u>	<u>186,442</u>	<u>1,342,188</u>	<u>7,113,696</u>

See notes to financial statements.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Assets

June 30, 2004

Total fund balances of governmental funds (Exhibit C)	\$ 2,714,317
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	1,955,302
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(3,617)
Long-term liabilities, capital loan notes payable are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(1,361,090)</u>
Net assets of governmental activities (Exhibit A)	<u><u>\$ 3,304,912</u></u>

See notes to financial statements.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources					
Local tax	3,724,576	180,484	106,717	562,747	4,574,524
Tuition	703,547	-	-	-	703,547
Other	153,039	-	26,085	257,468	436,592
State sources	4,726,283	170	-	535	4,726,988
Federal sources	170,904	-	-	-	170,904
Total revenues	9,478,349	180,654	132,802	820,750	10,612,555
Expenditures:					
Instruction					
Regular instruction	3,777,068	-	-	255,153	4,032,221
Special instruction	1,521,515	-	-	-	1,521,515
Other instruction	588,512	-	-	225,597	814,109
	5,887,095	-	-	480,750	6,367,845
Support services					
Student services	409,919	-	-	-	409,919
Instructional staff services	319,374	-	-	-	319,374
Administration services	994,107	-	-	105	994,212
Operation and maintenance of plant services	667,336	-	-	119,885	787,221
Transportation services	328,235	-	-	47,400	375,635
	2,718,971	-	-	167,390	2,886,361

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$
Expenditures (continued):					
Other expenditures					
Long-term debt:					
Principal	-	235,000	-	-	235,000
Interest	-	49,875	-	-	49,875
Services	-	300	-	-	300
Facility acquisition and construction	-	-	58,683	-	58,683
AEA flowthrough	378,152	-	-	-	378,152
	<u>378,152</u>	<u>285,175</u>	<u>58,683</u>	<u>-</u>	<u>722,010</u>
Total expenditures	<u>8,984,218</u>	<u>285,175</u>	<u>58,683</u>	<u>648,140</u>	<u>9,976,216</u>
Excess (deficiency) of revenues over (under) expenditures	<u>494,131</u>	<u>(104,521)</u>	<u>74,119</u>	<u>172,610</u>	<u>636,339</u>
Other financing sources (uses):					
Operating transfers in	-	122,300	-	-	122,300
Operating transfers out	-	-	-	(122,300)	(122,300)
Total other financial sources (uses)	<u>-</u>	<u>122,300</u>	<u>-</u>	<u>(122,300)</u>	<u>-</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>494,131</u>	<u>17,779</u>	<u>74,119</u>	<u>50,310</u>	<u>636,339</u>
Fund balances beginning of year, as restated (note 12)	<u>1,291,307</u>	<u>6,709</u>	<u>112,323</u>	<u>667,639</u>	<u>2,077,978</u>
Fund balances end of year	<u><u>1,785,438</u></u>	<u><u>24,488</u></u>	<u><u>186,442</u></u>	<u><u>717,949</u></u>	<u><u>2,714,317</u></u>

See notes to financial statements.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities

Year ended June 30, 2004

Net change in fund balances - total governmental funds (Exhibit E) \$ 636,339

**Amounts reported for governmental activities in the
statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 118,874	
Depreciation expense	<u>(188,545)</u>	(69,671)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

539

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement		135,977
------------------	--	---------

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.

235,000

Change in net assets of governmental activities (Exhibit B) \$ 938,184

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenses and Changes in Net Assets

Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>229,957</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	146,983
Benefits	23,369
Services	19,440
Supplies	201,910
Depreciation	<u>7,492</u>
Total operating expenses	<u>399,194</u>
Operating (loss)	<u>(169,237)</u>
Non-operating revenues:	
Interest on investments	84
State sources	4,930
Federal sources	<u>145,081</u>
Total non-operating revenues	<u>150,095</u>
Change in net assets	(19,142)
Net assets beginning of year	<u>104,537</u>
Net assets end of year	<u><u>85,395</u></u>

See notes to financial statements.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2004

	Enterprise School Nutrition \$
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	229,956
Cash payments to employees for services	(170,352)
Cash payments to suppliers for goods or services	(188,496)
Net cash (used in) operating activities	(128,892)
Cash flows from non-capital financing activities:	
State grants received	4,930
Federal grants received	101,816
Net cash provided by non-capital financing activities	106,746
Cash flows from investing activities:	
Interest on investments	84
Net increase in cash and cash equivalents	(22,062)
Cash and cash equivalents beginning of year	36,254
Cash and cash equivalents end of year	14,192
Reconciliation of operating income (loss) to net cash used in operating activities:	
Operating (loss)	(169,237)
Adjustments to reconcile operating (loss) to net cash provided by (used in) operating activities:	
Depreciation	7,492
Commodities used	30,678
Decrease in inventory	3,056
(Decrease) in accounts payable	(881)
	(128,892)
Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:	
Current assets:	
Cash	14,192

Non-cash investing, capital and financing activities:

During the year ended June 30, 2004, the District received federal commodities valued at \$30,678.

See notes to financial statements.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2004

	Private Purpose Trusts
	<u>\$</u>
Assets	
Cash and pooled investments	<u>1,830,533</u>
Total assets	<u>1,830,533</u>
Net Assets	
Reserved for general education	1,642,539
Reserved for scholarships	<u>187,994</u>
Total net assets	<u><u>187,994</u></u>

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets

Fiduciary Funds

Year ended June 30, 2003

	Private Purpose Trusts \$
Additions:	
Local sources:	
Interest on investments	32,785
Contributions	21,100
Total additions	53,885
Deductions:	
Support services:	
Other	36,974
Total deductions	36,974
Change in net assets	16,911
Net assets beginning of year	1,813,622
Net assets end of year	1,830,533

See notes to financial statements.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

Humboldt Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the Cities of Humboldt and Dakota City, Iowa, and agricultural territory in Humboldt, Webster and Wright Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, Humboldt Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Humboldt Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Humboldt County Assessor's Conference Board.

B. Basis of Presentation

Government-wide financial statements - The statements of net assets and the statement of activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The statement of net assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary fund is the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements and the proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus". The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the Government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Property, furniture and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the Government-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term obligations - In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the Government-wide statement of net assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2004 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public fund.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2004.

(3) **Capital Assets**

Capital assets activity for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year, as restated (note 12)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	<u>49,250</u>	<u>-</u>	<u>-</u>	<u>49,250</u>
Capital assets being depreciated:				
Land Improvements	849,758	-	-	849,758
Buildings	4,103,447	71,474	-	4,174,921
Furniture and Equipment	<u>2,354,235</u>	<u>47,400</u>	<u>-</u>	<u>2,401,635</u>
Total capital assets being depreciated	<u>7,307,440</u>	<u>118,874</u>	<u>-</u>	<u>7,426,314</u>
Less accumulated depreciation for:				
Land Improvements	739,981	8,859	-	748,840
Buildings	2,518,197	74,032	-	2,592,229
Furniture and Equipment	<u>2,073,539</u>	<u>105,654</u>	<u>-</u>	<u>2,179,193</u>
Total accumulated depreciation	<u>5,331,717</u>	<u>188,545</u>	<u>-</u>	<u>5,520,262</u>
Total capital assets being depreciated, net	<u>1,975,723</u>	<u>(69,671)</u>	<u>-</u>	<u>1,906,052</u>
Governmental activities, capital assets, net	<u>2,024,973</u>	<u>(69,671)</u>	<u>-</u>	<u>1,955,302</u>

	Balance Beginning of Year, as restated (note 12)	Increases	Decreases	Balance End of Year
Business type activities				
Furniture and Equipment	89,900	-	-	89,900
Less accumulated depreciation	<u>34,770</u>	<u>7,492</u>	<u>-</u>	<u>42,262</u>
Business type activities capital assets, net	<u>55,130</u>	<u>(7,492)</u>	<u>-</u>	<u>47,638</u>

Depreciation expense was charged to the following functions:

Governmental activities:

Instruction	76,564
Student services	726
Instructional support	7,076
Administration	7,273
Plant operation and maintenance	4,632
Student transportation	6,439
Unallocated	<u>85,835</u>
	<u>188,545</u>

Business type activities:

Food service operations	<u>7,492</u>
-------------------------	--------------

(4) Bonds Payable

The District refinanced its outstanding bonded indebtedness during the fiscal year ending June 30, 2004 at an estimated savings to the taxpayers of \$118,000. Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rate %	Principal \$	Interest \$	Total \$
2005	1.50	140,000	20,825	160,825
2006	1.80	150,000	18,725	168,725
2007	2.10	150,000	16,025	166,025
2008	2.35	150,000	12,875	162,875
2009	2.75	160,000	9,350	169,350
2010	3.00	<u>165,000</u>	<u>4,950</u>	<u>169,950</u>
Total		<u>915,000</u>	<u>82,750</u>	<u>997,750</u>

(5) Changes in Long-Term Debt

A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	General Obligation Bonds	EPA Loan	Capital Loan Notes	Total
Balance beginning of year	\$1,055,000	21,090	520,000	1,596,090
Additions	-	-	-	-
Reductions	<u>140,000</u>	<u>5,000</u>	<u>90,000</u>	<u>235,000</u>
Balance end of year	<u>\$ 915,000</u>	<u>16,090</u>	<u>430,000</u>	<u>1,361,090</u>

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$330,017, \$337,025, and \$351,838 respectively, equal to the required contributions for each year.

(7) Risk Management

Humboldt Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$378,152 for year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(9) Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to \$13,500. Early retirement benefits paid during the year ended June 30, 2004 totaled \$135,977.

(10) Capital Loan Notes/Construction in Progress

Capital loan notes in the amount of \$900,000 were issued in September, 1998 for the remodeling, improvement, reconstruction and repair of the high school, junior high school and elementary buildings. All open contracts have been completed. The District is in the process of developing projects for using the funds. The notes will be repaid from proceeds of the District's voted Physical Plant and Equipment Levy.

Details of the debt at June 30, 2004 are as follows:

Year Ending June 30,	Interest Rate %	Principal \$	Interest \$	Total \$
2005	5.25	100,000	22,575	122,575
2006	5.25	100,000	17,325	117,325
2007	5.25	110,000	12,075	122,075
2008	5.25	120,000	6,300	126,300
Total		430,000	58,275	488,275

(11) EPA Loan

During the year ended June 30, 1992, the District received a \$81,090 loan from the U.S. Environmental Protection Agency Asbestos in School Hazard Abatement Program. The loan is interest free and is to be repaid \$5,000 a year.

<u>Year</u>	<u>Amount</u>
2005	5,000
2006	5,000
2007	5,000
2008	<u>1,090</u>
	<u>\$16,090</u>

(12) Accounting Change

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the fiscal year ending June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include District-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

Governmental Accounting Standards Board (GASB) Statement Number 38, Certain Financial Statement Note Disclosure, requires certain disclosures be made in the notes to the financial statements concurrent with the implementation of Statement Number 34.

The District-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2002 caused by the conversion to the accrual basis of accounting.

	<u>Fund</u>				
	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
Net assets, June 30, 2003, as previously reported	\$1,291,307	6,709	112,323	531,662	1,942,001
GASB Interpretation 6 adjustments	-	-	-	135,997	135,997
Net assets, July 1, 2003, as restated for governmental funds	<u>\$1,291,307</u>	<u>6,709</u>	<u>112,323</u>	<u>667,659</u>	2,077,998
GASB 34 adjustments:					
Capital assets, net of accumulated depreciation of \$5,331,717					2,024,973
Long-Term Liabilities:					
Energy loans				(21,090)	
Capital loan notes				(520,000)	
General obligation bonds				(1,055,000)	
Early retirement				<u>(135,997)</u>	
					(1,732,087)
Accrued interest payable					<u>(4,156)</u>
Net assets, July 1, 2003, as restated					<u>\$ 2,366,728</u>

REQUIRED SUPPLEMENTARY INFORMATION

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues						
Local sources	5,757,067	230,040	5,987,107	6,014,566	6,014,566	(27,459)
State sources	4,726,988	4,930	4,731,918	4,736,907	4,736,907	(4,989)
Federal sources	170,904	101,816	272,720	300,000	300,000	(27,280)
Total revenues	10,654,959	336,786	10,991,745	11,051,473	11,051,473	(59,728)
Expenditures						
Instruction	6,564,146	-	6,564,146	6,795,493	6,795,493	231,347
Support services	2,886,361	-	2,886,361	2,966,845	2,966,845	80,484
Non-instructional programs	-	358,848	358,848	380,300	380,300	21,452
Other expenditures	722,010	-	722,010	914,865	914,865	192,855
Total expenditures	10,172,517	358,848	10,531,365	11,057,503	11,057,503	526,138
Excess of revenues over expenditures	482,442	(22,062)	460,380	(6,030)	(6,030)	466,410
Other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	482,442	(22,062)	460,380	(6,030)	(6,030)	466,410
Balance beginning of year	2,113,459	36,254	2,149,713	3,968,334	3,968,334	3,347,565
Balance end of year	2,595,901	14,192	2,610,093	3,962,304	3,962,304	3,813,975

See accompanying independent auditor's report.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule - Budget to GAAP Reconciliation

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Type		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	10,654,959	(42,404)	10,612,555
Expenditures	10,172,517	(196,301)	9,976,216
Net	482,442	153,897	636,339
Other financing sources (uses)	-	-	-
Beginning fund balances	2,113,459	(35,481)	2,077,978
Ending fund balances	<u>2,595,901</u>	<u>118,416</u>	<u>2,714,317</u>

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	336,786	43,266	380,052
Expenditures	358,848	40,346	399,194
Net	(22,062)	2,920	(19,142)
Beginning fund balances	36,254	68,283	104,537
Ending fund balances	<u>14,192</u>	<u>71,203</u>	<u>85,395</u>

See accompanying independent auditor's report.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the budget and appropriations lapse at year-end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

The District did not exceed the amounts budgeted in any of the four functional areas.

Other Supplementary Information

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Non-major Special Revenue Funds

June 30, 2004

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Assets				
Cash and pooled investments	515,428	87,907	108,008	711,343
Property tax receivable:				
Current year	2,792	-	3,814	6,606
Succeeding year	327,730	-	296,509	624,239
Total assets	<u>845,950</u>	<u>87,907</u>	<u>408,331</u>	<u>1,342,188</u>
Liabilities and Fund Equity				
Liabilities:				
Deferred revenue:				
Succeeding year property tax	327,730	-	296,509	624,239
	<u>327,730</u>	<u>-</u>	<u>296,509</u>	<u>624,239</u>
Fund equity:				
Unreserved, undesignated fund balance	518,220	87,907	111,822	717,949
Total liabilities and fund equity	<u>845,950</u>	<u>87,907</u>	<u>408,331</u>	<u>1,342,188</u>

See accompanying independent auditor's report.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures
and Changes in Fund Balances

Non-major Special Revenue Funds

Year ended June 30, 2004

	Management	Student Activity	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	232,520	-	330,227	562,747
Other	-	249,122	8,346	257,468
State sources	223	-	312	535
Total revenues	232,743	249,122	338,885	820,750
Expenditures:				
Instruction:				
Regular instruction	244,522	-	10,631	255,153
Co-curricular instruction	-	225,597	-	225,597
Support services:				
Administration	-	-	105	105
Plant operation and maintenance	-	-	119,885	119,885
Student transportation	-	-	47,400	47,400
Total expenditures	244,522	225,597	178,021	648,140
Excess (deficiency) of revenues over (under) expenditures	(11,779)	23,525	160,864	172,610
Other financing (uses):				
Operating transfers out	-	-	(122,300)	(122,300)
Total operating financing (uses)	-	-	(122,300)	(122,300)
Excess (deficiency) of revenues over (under) expenditures and other financing uses	(11,779)	23,525	38,564	50,310
Fund balances beginning of year, as restated (note 12)	529,999	64,382	73,258	667,639
Balance end of year	518,220	87,907	111,822	717,949

See accompanying independent auditor's report.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Individual Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Cross Country	1,335	1,869	2,038	1,166
Boys Basketball	2,982	5,869	2,160	6,691
Football	10	12,942	12,774	178
Baseball	-	9,439	9,333	106
Boys Track	1,120	2,419	3,217	322
Boys Golf	386	3	301	88
Wrestling	1,030	8,602	7,882	1,750
Girls Basketball	5,144	8,332	8,920	4,556
Volleyball	2,495	5,461	7,405	551
Softball	22	7,682	7,632	72
Girls Track	2,748	8,628	10,564	812
Girls Golf	746	3	130	619
Soccer	547	3,696	3,493	750
Olympics	65	17	-	82
Spanish Club	608	17,218	11,617	6,209
Drama	12,010	13,321	9,237	16,094
Cheerleaders	36	3,306	3,342	-
MOC	1,638	-	-	1,638
Graphic Arts	573	-	-	573
Student Senate	3,853	4,290	3,254	4,889
FFA	8,070	20,389	21,900	6,559
MS Cheerleading	-	142	(600)	742
Drill Team	6,274	9,314	13,050	2,538
Class of 2003	692	-	2,197	(1,505)
Class of 2004	359	5,412	5,771	-
Class of 2005	2,677	3,058	4,046	1,689
Class of 2006	2,504	-	-	2,504
Class of 2007	-	4,037	2,417	1,620
High School	1,669	489	648	1,510
Middle School	608	4,126	2,881	1,853
Taft	519	4,692	4,591	620
Mease	1,032	2,262	2,726	568
Secondary Academic Boosters	3,551	3,110	2,918	3,743
Elementary Art	61	-	-	61
Elementary PE	142	-	-	142
High School Art	5	200	25	180
Elementary Special	29	252	40	241
Elementary Academic Boosters	753	23,747	21,077	3,423
Vocal HS	1,084	1,898	1,845	1,137
Vocal MS	831	1,137	286	1,682
Vocal Elementary	1,339	422	184	1,577
Band HS	2,172	2,352	3,522	1,002

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Individual Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Band MS	1,742	1,905	1,738	1,909
Band Elementary	233	520	238	515
Nokomis 2000	(35)	-	(35)	-
Nokomis 2001	(2,728)	140	(267)	(2,321)
Nokomis 2002	303	-	303	-
Nokomis 2003	3,984	729	5,174	(461)
Nokomis 2004	-	17,277	8,718	8,559
Rockets - 6th Grade	157	1,076	1,024	209
HS PE	2,277	533	419	2,391
Concessions - MS	2,607	2,500	-	5,107
Student Activity	(16,680)	36,646	32,692	(12,726)
Track Project	242	-	-	242
Weight Room	275	6,078	6,078	275
Motel	-	5,315	408	4,907
Checking Interest	17	166	183	-
Mease CD	61	-	-	61
Middle School CD	203	-	-	203
Investment Interest	5	-	-	5
	64,382	273,021	249,496	87,907
Less interaccount transfers		(24,079)	(24,079)	
Totals	<u>64,382</u>	<u>248,942</u>	<u>225,417</u>	<u>87,907</u>

See accompanying independent auditor's report.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Private Purpose Trusts

Year ended June 30, 2004

	Clyde R. & Nira Mease Scholarship	Dan Rusher Memorial	Bertha Peterson Scholarship	Michael H. Baker Scholarship	Harry Reasoner Educational Trust	Joe & Edith Reasoner Educational Trust
	\$	\$	\$	\$	\$	\$
Assets						
Cash and pooled investments	<u>5,989</u>	<u>160</u>	<u>7,347</u>	<u>9,068</u>	<u>4,042</u>	<u>11,048</u>
	<u><u>5,989</u></u>	<u><u>160</u></u>	<u><u>7,347</u></u>	<u><u>9,068</u></u>	<u><u>4,042</u></u>	<u><u>11,048</u></u>
Fund Equity						
Fund equity:						
Reserved for general education	-	-	-	-	-	-
Reserved for scholarships	<u>5,989</u>	<u>160</u>	<u>7,347</u>	<u>9,068</u>	<u>4,042</u>	<u>11,048</u>
	<u><u>5,989</u></u>	<u><u>160</u></u>	<u><u>7,347</u></u>	<u><u>9,068</u></u>	<u><u>4,042</u></u>	<u><u>11,048</u></u>

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Private Purpose Trusts

Year ended June 30, 2004

	Cramlet/ Schnoor Scholarship	Esther Hansen Scholarship	Guy Carter Memorial	Anderson Scholarship	Klasse Scholarship	Stead Scholarship
	\$	\$	\$	\$	\$	\$
Assets						
Cash and pooled investments	<u>80,030</u>	<u>10,097</u>	<u>482</u>	<u>10,295</u>	<u>20,246</u>	<u>1,258</u>
	<u><u>80,030</u></u>	<u><u>10,097</u></u>	<u><u>482</u></u>	<u><u>10,295</u></u>	<u><u>20,246</u></u>	<u><u>1,258</u></u>
Fund Equity						
Fund equity:						
Reserved for general education	-	-	-	-	-	-
Reserved for scholarships	<u>80,030</u>	<u>10,097</u>	<u>482</u>	<u>10,295</u>	<u>20,246</u>	<u>1,258</u>
	<u><u>80,030</u></u>	<u><u>10,097</u></u>	<u><u>482</u></u>	<u><u>10,295</u></u>	<u><u>20,246</u></u>	<u><u>1,258</u></u>

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet

Private Purpose Trusts

General purposes

	Castle Theater Scholarship	Howard G. & Ruth A. Louthen Trust	Bette L. Newton Scholarship	Rogness Scholarship	Totals
	\$	\$	\$	\$	\$
Assets					
Cash and pooled investments	<u>9,357</u>	<u>1,642,539</u>	<u>8,043</u>	<u>10,532</u>	<u>1,830,533</u>
	<u>9,357</u>	<u>1,642,539</u>	<u>8,043</u>	<u>10,532</u>	<u>1,830,533</u>
Fund Equity					
Fund equity:					
Reserved for general education	-	1,642,539	-	-	1,642,539
Reserved for scholarships	<u>9,357</u>	<u>-</u>	<u>8,043</u>	<u>10,532</u>	<u>187,994</u>
	<u>9,357</u>	<u>1,642,539</u>	<u>8,043</u>	<u>10,532</u>	<u>1,830,533</u>

See accompanying independent auditor's report.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Private Purpose Trusts

Year ended June 30, 2004

	Clyde R. & Nira Mease Scholarship	Dan Rusher Memorial	Bertha Peterson Scholarship	Michael H. Baker Scholarship	Harry Reasoner Educational Trust	Joe & Edith Reasoner Educational Trust
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Interest on investments	29	108	35	44	18	54
Contributions	-	-	-	-	-	-
	<u>29</u>	<u>108</u>	<u>35</u>	<u>44</u>	<u>18</u>	<u>54</u>
Expenditures:						
Instruction:						
Regular instruction:						
Other	150	-	100	250	200	250
	<u>150</u>	<u>-</u>	<u>100</u>	<u>250</u>	<u>200</u>	<u>250</u>
Excess (deficiency) of revenues over (under) expenditures	(121)	108	(65)	(206)	(182)	(196)
Balance beginning of year	<u>6,110</u>	<u>52</u>	<u>7,412</u>	<u>9,274</u>	<u>4,224</u>	<u>11,244</u>
Balance end of year	<u><u>5,989</u></u>	<u><u>160</u></u>	<u><u>7,347</u></u>	<u><u>9,068</u></u>	<u><u>4,042</u></u>	<u><u>11,048</u></u>

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balance

Private Purpose Trusts

Year ended June 30, 2004

	Cramlet/ Schnoor Scholarship	Esther Hansen Scholarship	Guy Carter Memorial	Anderson Scholarship	Klasse Scholarship	Stead Scholarship
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources:						
Interest on investments	422	42	1	51	102	-
Contributions	-	-	-	-	-	-
	<u>422</u>	<u>42</u>	<u>1</u>	<u>51</u>	<u>102</u>	<u>-</u>
Expenditures:						
Instruction:						
Regular instruction:						
Other	<u>10,600</u>	<u>-</u>	<u>250</u>	<u>250</u>	<u>500</u>	<u>-</u>
	<u>10,600</u>	<u>-</u>	<u>250</u>	<u>250</u>	<u>500</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	(10,178)	42	(249)	(199)	(398)	-
Balance beginning of year	<u>90,208</u>	<u>10,055</u>	<u>731</u>	<u>10,494</u>	<u>20,644</u>	<u>1,258</u>
Balance end of year	<u><u>80,030</u></u>	<u><u>10,097</u></u>	<u><u>482</u></u>	<u><u>10,295</u></u>	<u><u>20,246</u></u>	<u><u>1,258</u></u>

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Private Purpose Trusts

Year ended June 30, 2004

	Castle Theater Scholarship	Howard G. & Ruth A. Louthen Trust	Bette L. Newton Scholarship	Rogness Scholarship	Totals
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Interest on investments	44	31,266	537	32	32,785
Contributions	-	10,600	-	10,500	21,100
	<u>44</u>	<u>41,866</u>	<u>537</u>	<u>10,532</u>	<u>53,885</u>
Expenditures:					
Instruction:					
Regular instruction:					
Other	250	23,674	500	-	36,974
	<u>250</u>	<u>23,674</u>	<u>500</u>	<u>-</u>	<u>36,974</u>
Excess (deficiency) of revenues over (under) expenditures	(206)	18,192	37	10,532	16,911
Balance beginning of year	<u>9,563</u>	<u>1,624,347</u>	<u>8,006</u>	<u>-</u>	<u>1,813,622</u>
Balance end of year	<u><u>9,357</u></u>	<u><u>1,642,539</u></u>	<u><u>8,043</u></u>	<u><u>10,532</u></u>	<u><u>1,830,533</u></u>

See accompanying independent auditor's report.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues

	Years ended June 30,			
	2004	2003	2002	2001
	\$	\$	\$	\$
Local sources:				
General	3,724,576	3,763,382	3,439,331	3,099,371
Special revenue/debt service	743,231	729,156	927,312	670,002
Capital projects	106,717	75,826	26,001	10,861
	<u>4,574,524</u>	<u>4,568,364</u>	<u>4,392,644</u>	<u>3,780,234</u>
State sources:				
General	4,726,283	4,845,672	4,811,079	4,969,159
Special revenue/debt service	705	394	943	723
	<u>4,726,988</u>	<u>4,846,066</u>	<u>4,812,022</u>	<u>4,969,882</u>
Federal sources:				
General	170,904	246,183	521,566	554,489
Special revenue/debt service	-	33,848	-	-
	<u>170,904</u>	<u>280,031</u>	<u>521,566</u>	<u>554,489</u>
Total	<u>9,472,416</u>	<u>9,694,461</u>	<u>9,726,232</u>	<u>9,304,605</u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance and
on Internal Control over Financial Reporting**

To the Board of Education of the
Humboldt Community School District:

We have audited the financial statements of the Humboldt Community School District, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 30, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Humboldt Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed immaterial instances of non-compliance that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except 04-II-E.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Humboldt Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Humboldt Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-II-A is a material weakness. Prior year reportable conditions have all been resolved except for item 04-II-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Humboldt Community School District and other parties to whom Humboldt Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Humboldt Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

BRUCE D. FRINK
Certified Public Accountant

November 30, 2004

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

04-I-A Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The District has done a good job of segregating duties among the present staff, however, the District Secretary continues to have the ability to override the present controls and circumvent the internal control systems.

Recommendation - We realize the job description, as defined by the Code of Iowa, of the District Secretary makes the segregation of duties even more difficult and the elimination of the possibility of administrative override of the system improbable. However, we feel the board and the administration should review these policies annually and with each personnel change to insure the best possible control climate is maintained.

Response - We will continue to review procedures to obtain the best controls possible.

Conclusion - Response accepted.

04-I-B Approval of Supervisory Payroll - We noted that the Superintendent did not always approve the payroll of supervisory personnel.

Recommendation - We recommend that the Superintendent approve the payroll of all supervisory personnel each month.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

04-I-C Reconciliation and Recording of Entries - We noted that the various bank accounts of the District had not been properly reconciled at June 30, 2004. The accounts had been reconciled monthly prior to that time. Correcting entries have been made by the District in order to properly balance the accounts.

Recommendation - We recommend that the District reconcile all of its bank accounts on a monthly basis. Discussions with the current Business Manager indicate that the business office is in the process of bring all records up to date.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting:

04-II-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2004.

04-II-B Certified Budget - Expenditures for the year ended June 30, 2004, did not exceed the amounts budgeted.

04-II-C Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

04-II-D Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

04-II-E Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Mike Dailey husband of Board Member, owner of Humboldt Motor Sales	Vehicle repairs and rentals	\$16,369

The transaction with Mr. Dailey appears to represent a conflict of interest since the transactions exceed the \$2,500 of purchases allowed by the Code of Iowa.

Recommendation - The District should consult legal counsel to determine the disposition of this matter.

Response - We will consult our attorney.

Conclusion - Response accepted.

04-II-F Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

04-II-G Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.

04-II-H Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

HUMBOLDT COMMUNITY SCHOOL DISTRICT

Schedule of Findings

Year ended June 30, 2004

Part II: Other Findings Related to Required Statutory Reporting:
(continued) :

04-II-I Certified Annual Report - We noted that the District's Certified Annual Report was not filed with the Department of Education by the September 15, 2004 due date.

Recommendation - We are aware of the unusual circumstances regarding the untimely turnover in the District Business Manager position that made a timely filing of the CAR to be extremely difficult. We also understand that the District has taken the necessary steps in hiring a qualified individual to ensure that future annual reports will be filed in a timely manner.

Response - As stated above, we have hired a District Business Manager with prior experience. We do not believe that timely filing of future reports will be a problem.

Conclusion - Response accepted.

04-II-J Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

